Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Text

LIMITED OFFICIAL USE

PAGE 01 LONDON 12437 01 OF 02 041614Z
ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 ACDA-12 PA-01 DLOS-09 /140 W
----------096468 041708Z /53
R 041609Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8817
TREASURY DEPT WASHDC
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY DUBLIN
AMEMBASSY OSLO
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 12437

USEEC

USOECD

E.O. 11652: N/A
TAGS: ENRG, UK, EINV, EFIN
SUBJECT: OIL COMPANY VIEWS OF THE NORTH SEA FUTURE

REF: (A) LONDON 12267; (B) LONDON 12329

1. THE SIMULTANEOUS ANNOUNCEMENT OF MORE RESTRICTIVE CONDITIONS FOR THE NEXT ROUND OF OIL LICENSING AND OF

.
THE INTENTION TO INCREASE THE TAKE OF THE PETROLEUM REVENUE TAX (PRT) IS GENERATING A PERHAPS PREDICTABLE GLOOM IN U.K. OIL CIRCLES. COMPANY REACTIONS ARE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 12437 01 OF 02 041614Z

NECESSARILY PRELIMINARY BECAUSE OF THE NEED TO ASSESS THE SPECIFIC ACREAQE BEING OFFERED AND TO STUDY THE LIKELY IMPACT OF THE PRT CHANGES. ALSO, THE PRESUMABLY APPROACHING ELECTIONS NATURALLY GENERATE AN AURA OF UNCERTAINTY. FOR EXAMPLE, COMPANIES BELIEVE THE TORIES WILL SUPPORT THE PRT CHANGES BUT THAT A TORY GOVERNMENT WOULD EFFECT SOME (BUT DIFFICULT TO PREDICT

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

WHAT) CURTAILMENT OF THE ROLE OF THE BRITISH NATIONAL OIL CORPORATION (BNOC).

2. THE U.K. OFFSHORE OPERATORS' ASSOCIATION REPRESENTING PRIVATE COMPANIES (UKOOA) HAS TOLD US THAT THE PRT CHANGES MARK THE FIRST TIME THE GOVERNMENT HAS PURSUED A MAJOR CHANGE IN OIL CONDITIONS WITHOUT PRIOR CONSULTATION AND DISCUSSION WITH COMPANIES. UKOOA SAID THEY HAD INFORMALLY UNDERSTOOD ALL ALONG THAT THE PRT RATE WOULD INCREASE IF OIL PRICES ROSE. HOWEVER, NORTH SEA OIL PRICES HAVE ACTUALLY FALLEN. FORTIES CRUDE IN MARCH 1977 WAS SOLD FOR JUST OVER $14 PER BARREL, VERSUS $13.65 TODAY.

3. A LARGE U.S.-BASED COMPANY BELIEVES THE GOVERNMENT HAS ALLOWED THE ADMITTEDLY PROFITABLE FORTIES AND PIPER FIELDS TO DIVERT ATTENTION FROM WHAT LIES IN THE FUTURE:

(A) MUCH HIGHER PRODUCTION COSTS FOR ALL NEW FIELDS DEVELOPED REGARDLESS OF LOCATION AND RESERVOIR CONDITIONS, AND (B) EXPLORATION AND DEVELOPMENT OF PROBABLY EVER SMALLER FIELDS, SOME OF WHICH WILL BE IN DEEPER WATER. AN EXISTING COMPANY ILLUSTRATION FOR BOTH POINTS IS BRITISH PETROLEUM. FORTIES HAS COST ABOUT ONE BILLION POUNDS STERLING TO DEVELOP, MOST OF WHICH LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 LONDON 12437 01 OF 02 041614Z

REPRESENTS EARLY EXPENDITURE AT COSTS WHICH WILL NEVER BE SEEN AGAIN. IF FORTIES DEVELOPMENT WERE BEGUN AT TODAY'S COSTS, IT WOULD PROBABLY REQUIRE A MULTIPLE OF THIS FIGURE. BP'S MORE DIFFICULT MAGNUS FIELD, PEAK PRODUCTION OF WHICH WILL BE LESS THAN ONE-FIFTH THAT OF FORTIES, IS ALREADY PROJECTED TO COST 25 PERCENT

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 LONDON 12437 02 OF 02 041614Z
ACTION EUR-12

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09
SP-02 SS-15 STR-07 ACDA-12 PA-01 DLOS-09 /140 W
----------096461 041708Z /53
R 041609Z AUG 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8818
TREASURY DEPT WASHDC
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY DUBLIN
AMEMBASSY OSLO
AMCONSUL EDINBURGH

LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 12437

MORE THAN FORTIES' ONE BILLION POUNDS.

4. ANOTHER COMPANY SAYS TOTAL GOVERNMENT REVENUES ARE A LITTLE BEHIND SIMPLY BECAUSE COSTS AND THEREFORE PRT DEDUCTIONS HAVE RISEN FASTER THAN EXPECTED. WE WOULD ADD TO THIS THE FACT THAT OIL PRODUCTION ITSELF IS ALSO BEHIND SCHEDULE (LONDON 10352) IN THIS RESPECT, AN ARTICLE IN TODAY'S "FINANCIAL TIMES" NOTES THAT THE OFFICIAL PREDICTION OF NET OIL SELF-SUFFICIENCY HAS ALREADY BEEN PUSHED BACK FROM 1978 TO 1980. THE MANAGER OF A LARGE OIL COMPANY SAID HE EXPECTS THE YEAR TO BE 1981 OR 1982.

5. APPREHENSION ABOUT CHANGES AFFECTING FUTURE PROFIT-ABILITY MIGHT BE CHARACTERIZED BY THE CIRCUMSTANCES
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 LONDON 12437 02 OF 02 041614Z

SURROUNDING THE BRENT FIELD (SHELL/ESSO): MORE THAN TWO BILLION POUNDS STERLING HAVE BEEN INVESTED, YET VIRTUALLY ALL OF THE RETURN CASH FLOW IS STILL IN THE FUTURE.

6. WHATEVER THE FINAL OUTCOME OF THE COMPANIES' RE-ASSESSMENTS MAY BE, TWO FUNDAMENTAL TRUTHS ARE ALREADY EVIDENT. FIRST, GIVEN THE SMALLEST-EVER ACREAGE BEING OFFERED IN THE SIXTH ROUND, THE GOVERNMENT WILL NOT HAVE TO HAVE VERY MANY TAKERS IN ORDER TO SAY THAT PRIVATE COMPANIES ARE STILL INTERESTED. SECOND, EXPLORATION ACTIVITY ON THE U.K. CONTINENTAL SHELF IS HEADED DOWNWARDS.

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

BREWSTER

LIMITED OFFICIAL USE

NNN

Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, INDUSTRY, POLICIES, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 04 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978LONDON12437
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780319-0312
Format: TEL
From: LONDON USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780898/aaaadegh.tel
Line Count: 172
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 1df6356a-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 LONDON 12267, 78 LONDON 12329
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1837040
Secure: OPEN
Status: NATIVE
Subject: OIL COMPANY VIEWS OF THE NORTH SEA FUTURE
TAGS: ENRG, EINV, EFIN, UK
To: STATE TRSY
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/1df6356a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014